

**Benzie County Road Commission**

**BASIC FINANCIAL STATEMENTS**

**September 30, 2008**

**BENZIE COUNTY**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Roger Griner  
Vice - Chairman

W. John Nuske  
Chairman

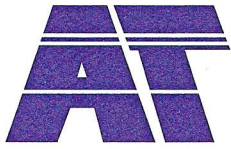
Robert Rosa  
Member

Robert Weaver  
Manager

Shannon Evans  
Financial Manager/Clerk

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Benzie County Road Commission  
Honor, Michigan 49640

We have audited the accompanying financial statements of the governmental activities and major fund, of the Benzie County Road Commission (a component unit of the County of Benzie, Michigan) as of and for the year ended September 30, 2008, which collectively comprise the Road Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were not able to physically observe inventory quantities of equipment parts and road materials amounting to \$211,193 and \$275,805 respectively at September 30, 2008. Additionally, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

In our opinion, except for the effect of the above item, if any, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund, of the Benzie County Road Commission, as of September 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2009 on our consideration of the Benzie County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Benzie County Road Commission's basic financial statements. The schedules listed as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 26, 2009

## **Management's Discussion and Analysis**

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**Using This Annual Report**

The Benzie County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

**Reporting the Road Commission as a Whole**

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

**Reporting the Road Commission's Major Fund**

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 28 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

**The Road Commission as a Whole**

The road commission's net assets increased approximately 8.7% from \$7.9 million to \$8.6 million for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$60 thousand. The primary reason for this was a decrease in federal support for road projects. Fuel prices negatively impacted net assets. The investment in capital assets category increased \$745 thousand, however.

It is important for the reader to realize that the increase in net assets is largely a result of the reporting of infrastructure assets.

Net assets as of the year ended September 30, 2008 and 2007 is as follows:

	<u>Governmental Activities</u> <u>2008</u>	<u>Governmental Activities</u> <u>2007</u>
Current and Other Assets	\$ 1,803,378	\$ 2,235,971
Capital Assets	<u>7,148,599</u>	<u>6,682,836</u>
Total Assets	<u>\$ 8,951,977</u>	<u>\$ 8,918,807</u>
Current Liabilities	\$ 322,626	\$ 391,551
Other Liabilities	<u>73,596</u>	<u>657,012</u>
Total Liabilities	<u>396,222</u>	<u>1,048,563</u>
Net Assets		
Invested in Capital Assets	7,148,599	6,403,377
Restricted	<u>1,407,156</u>	<u>1,466,867</u>
Total Net Assets	<u>\$ 8,555,755</u>	<u>\$ 7,870,244</u>



A summary of changes in net assets for the year ended September 30, 2008 and 2007 is as follows:

	<u>Governmental Activities 2008</u>	<u>Governmental Activities 2007</u>
Program Revenues		
Charges for Services	\$ 1,042,219	\$ 1,095,496
Operating Grants, Capital Grants and Contributions	2,858,097	3,720,840
Interest Income	37,588	45,137
General Revenues		
Gain on Disposal of Equipment	<u>50,516</u>	<u>13,950</u>
Total Revenues	<u>3,988,420</u>	<u>4,875,423</u>
Program Expenses		
Primary Roads		
Maintenance	1,058,532	1,093,757
Local Roads		
Maintenance	1,102,585	1,044,908
State Trunkline	842,914	925,239
Equipment	64,633	75,803
Administrative	228,980	203,355
Interest Expense and Other	<u>5,265</u>	<u>28,555</u>
Total Expenses	<u>3,302,909</u>	<u>3,371,617</u>
Changes in Net Assets	685,511	1,503,806
Net Assets - Beginning	<u>7,870,244</u>	<u>6,366,438</u>
Net Assets – Ending	<u>\$ 8,555,755</u>	<u>\$ 7,870,244</u>

### **The Road Commission's Fund**

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2008, the fund balance of the general operations fund decreased \$63 thousand as compared to an increase of \$156 thousand in the fund balance for the year ended September 30, 2007 (last year). Total revenues were \$3.99 million, a decrease of \$887 thousand as compared to last year. This change in revenues resulted primarily from a decrease in State and Federal grants for operations.

Total expenditures were \$4.05 million, a decrease of \$769 thousand as compared to last year. This change in expenditures is primarily the decrease in preservation activities. The road commission experienced a decrease in primary and local road expenditures as well.

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2008 was higher than the actual receipts by \$2,416. This was due, in a large part, to the increase in other projects. The Road Commission budgets for the receipt of funds from townships for projects on local roads.

Road Commission expenditures were projected at \$4,064,035 while actual expenditures were \$4,051,038. This resulted in total expenditures under budget by \$12,997. There were several items that account for the variance in the projection of the budget. The largest share of the variance is in the area of local road maintenance.

**Capital Asset and Debt Administration**Capital Assets

As of September 30, 2008, the road commission had \$7.1 million invested in capital assets as follows:

	<u>2008</u>	<u>2007</u>
Capital Assets Not Being Depreciated		
Land and Improvements	<u>\$ 1,364,029</u>	<u>\$ 1,282,069</u>
Capital Assets Being Depreciated		
Buildings and Improvements	1,036,686	1,024,578
Road Equipment	4,424,396	4,387,245
Other Equipment	472,085	416,943
Infrastructure and Improvements	<u>5,539,825</u>	<u>4,642,997</u>
Total Capital Assets Being Depreciated	11,472,992	10,471,763
Total Accumulated Depreciation	<u>(5,688,422)</u>	<u>(5,070,996)</u>
Total Net Capital Assets	<u>\$ 7,148,599</u>	<u>\$ 6,682,836</u>

Current year's major additions included the following:

Buildings	<u>\$ 12,108</u>
Various Resurfacing Projects	<u>\$ 978,788</u>
Trucks/Equipment	<u>\$ 202,562</u>

Debt

The road commission currently experiences a standard debt status. Notes issued in prior years have been paid currently and no new notes were issued. The road commission currently has long-term debt in the amount of \$73,596 which represents compensated absences payable.

**Economic Factors and Next Year's Budget**

The board of county road commissioners considered many factors when setting the fiscal year 2009 budget. One of the factors is the economy, another factor is fuel prices. The road commission derives approximately 58% of its revenues from the fuel tax collected. The State of Michigan's economic downturn and the increase in fuel prices has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Benzie County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Benzie County.

**Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Benzie County Road Commission administrative offices at 11318 Main Street, P.O. Box 68, Honor, Michigan.

## **Basic Financial Statements**

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# Benzie County Road Commission

## Statement of Net Assets September 30, 2008

### ASSETS

Cash and Equivalents	\$ 639,088
Accounts Receivable:	
Michigan Transportation Fund	407,146
State Trunkline Maintenance	96,197
Sundry Accounts	173,949
Inventories:	
Road Materials	275,805
Equipment, Parts and Materials	211,193
Capital Assets (Nondepreciable)	1,364,029
Capital Assets (Net of Accumulated Depreciation)	<u>5,784,570</u>
Total Assets	<u>\$ 8,951,977</u>

### LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 78,091
Accrued Liabilities	28,533
Advances from State	216,002
Noncurrent Liabilities:	
Compensated Absences Payable	<u>73,596</u>
Total Liabilities	<u>396,222</u>

### NET ASSETS

Invested in Capital Assets	7,148,599
Restricted for County Road	<u>1,407,156</u>
Total Net Assets	<u>\$ 8,555,755</u>

## Benzie County Road Commission

### Statement of Activities For the Year Ended September 30, 2008

#### Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 1,058,532
Local Road Maintenance and Preventive Maintenance	1,102,585
State Trunkline Maintenance	842,914
Net Equipment Expense	64,633
Net Administrative Expense	228,980
Compensated Absences and Other	(970)
Interest Expense	<u>6,235</u>

Total Program Expenses	<u>3,302,909</u>
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#### Program Revenues:

Charges for Services:	
License and Permits	57,180
Charges for Services	985,039
Operating Grants and Contributions:	
Michigan Transportation Funds	1,912,820
Investment Earnings	37,588
Capital Grants and Contributions:	
State Grants	632,170
Contributions from Local Units and Private	<u>313,107</u>

Total Program Revenues	<u>3,937,904</u>
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Net Program Revenues	<u>634,995</u>
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#### General Revenues:

Gain on Equipment Disposal	<u>50,516</u>
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Total General Revenues	<u>50,516</u>
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Changes in Net Assets	685,511
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Net Assets – Beginning of Year	<u>7,870,244</u>
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Net Assets – End of Year	<u><u>\$ 8,555,755</u></u>
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## **Benzie County Road Commission**

### **Balance Sheet September 30, 2008**

	<u>Governmental Fund Type General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash and Equivalents	\$ 639,088
Accounts Receivable:	
Michigan Transportation Fund	407,146
State Trunkline Maintenance	96,197
Sundry Accounts	173,949
Inventories:	
Road Materials	275,805
Equipment Parts	<u>211,193</u>
Total Assets	<u>\$ 1,803,378</u>
<b><u>LIABILITIES AND FUND EQUITIES</u></b>	
Liabilities:	
Accounts Payable	\$ 78,091
Accrued Liabilities	28,533
Advances from State	<u>216,002</u>
Total Liabilities	<u>322,626</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>1,480,752</u>
Total Fund Equities	<u>1,480,752</u>
Total Liabilities and Fund Equities	<u>\$ 1,803,378</u>



**Reconciliation of the Balance Sheet Fund  
Balance to the Statement of Net Assets  
For the Year Ended September 30, 2008**

Total Governmental Fund Balance	\$ 1,480,752
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,148,599
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(73,596)</u>
Net Assets of Governmental Activities	<u>\$ 8,555,755</u>

**Statement of Revenues, Expenditures, and  
Changes in Fund Balance  
For the Year Ended September 30, 2008**

	<u>General Operating Fund</u>
Revenues	
License and Permits	\$ 57,180
State Sources	2,544,990
Contributions from Local Units	58,876
Charges for Services	967,569
Interest and Rents	37,588
Other Revenue	<u>322,217</u>
Total Revenues	<u>3,988,420</u>
Expenditures	
Public Works	3,966,255
Capital Outlay	(200,911)
Debt Service	<u>285,694</u>
Total Expenditures	<u>4,051,038</u>
Excess of Revenues Over (Under) Expenditures	(62,618)
Fund Balance – October 1, 2007	<u>1,543,370</u>
Fund Balance – September 30, 2008	<u><u>\$ 1,480,752</u></u>

## **Benzie County Road Commission**

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### **Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2008**

Net Change in Fund Balance – Total Governmental Funds	\$ (62,618)
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	465,763
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Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Proceeds from loans provide current resources in the governmental funds but increase liabilities in the statement of net assets. This is the difference in these two accounts.	279,459
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Expenses which do not require the use of current financial resources and therefore are not reported in governmental funds for compensated absences.	<u>2,907</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 685,511</u></u>
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## **Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Benzie County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Benzie County Road Commission.

**A. Reporting Entity**

The Benzie County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 and as amended by (GASB) Statement No. 39, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Benzie County Road Commission, a discretely presented component unit of Benzie County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Benzie County Road Commission. There is only one major fund reported in the fund financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The general operating fund is the only major fund of the commission.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply restricted grant resources to such programs, and then general revenues.

**D. Assets, Liabilities, and Net Assets or Equity****Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of six months or less when acquired.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Benzie County Road Commission as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Benzie County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	3 to 10 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Compensated Absences (Vacation and Sick Leave)

The maximum accumulation of vacation hours according to the union agreement is 176 hours. Any unused vacation is lost at calendar year end. Employees accrued hours on January 1<sup>st</sup> each year. Sick leave is payable up to 288 hours at current wages upon retirement only, to a maximum of \$3,000 per employee.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Clerk and Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each August. All budgets lapse at fiscal year end. Expenditures in excess of appropriations are reported on Page 27.

**NOTE 3 - CASH AND EQUIVALENTS**

The cash and equivalents are classified in the following categories:

Imprest Cash	\$ 500
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>638,588</u>
Total Cash and Equivalents	<u>\$ 639,088</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.



**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

*Interest rate risk.* The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$607,708 of the Commission's bank balance of \$1,107,708 was exposed to credit risk because it was uninsured and uncollateralized.

**NOTE 4 - DEFERRED COMPENSATION PLAN**

The Benzie County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Benzie County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Benzie County Road Commission's financial statements.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the Benzie County Road Commission for the current year was as follows:

	Beginning Balances 10/01/07	Additions	Adjustments/ Deductions	Ending Balances 09/30/08
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 12,708	\$ -	\$ -	\$ 12,708
Land Improvements	<u>1,269,361</u>	<u>81,960</u>	<u>-</u>	<u>1,351,321</u>
Subtotal	<u>1,282,069</u>	<u>81,960</u>	<u>-</u>	<u>1,364,029</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings	1,024,578	12,108	-	1,036,686
Road Equipment	4,387,245	147,420	110,269	4,424,396
Shop Equipment	68,550	50,466	-	119,016
Office Equipment	47,066	2,186	-	49,252
Engineer's Equipment	39,636	2,490	-	42,126
Yard and Storage	261,691	-	-	261,691
Infrastructure	<u>4,642,997</u>	<u>896,828</u>	<u>-</u>	<u>5,539,825</u>
Subtotal	<u>10,471,763</u>	<u>1,111,498</u>	<u>110,269</u>	<u>11,472,992</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

	Beginning Balances 10/01/07	Additions	Adjustments/ Deductions	Ending Balances 09/30/08
<i>Less Accumulated Depreciation:</i>				
Buildings	\$ 612,053	\$ 72,078	\$ -	\$ 684,131
Road Equipment	3,748,886	311,793	104,191	3,956,488
Shop Equipment	42,923	7,867	-	50,790
Office Equipment	44,291	1,057	-	45,348
Engineer's Equipment	36,253	3,215	-	39,468
Yard and Storage	123,503	15,430	-	138,933
Infrastructure	<u>463,087</u>	<u>310,177</u>	<u>-</u>	<u>773,264</u>
Subtotal	<u>5,070,996</u>	<u>721,617</u>	<u>104,191</u>	<u>5,688,422</u>
Net Capital Assets Being Depreciated	<u>5,400,767</u>	<u>389,881</u>	<u>6,078</u>	<u>5,784,570</u>
Total Net Capital Assets	<u>\$ 6,682,836</u>	<u>\$ 471,841</u>	<u>\$ 6,078</u>	<u>\$ 7,148,599</u>

Depreciation expense was charged to operations as follows:

Primary	\$ 245,335
Local	64,842
Equipment	311,793
Administration	4,272
Other	<u>95,375</u>
Total	<u>\$ 721,617</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**
**Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)**

**Plan Description** – The Benzie County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

**Funding Policy** – The obligation to contribute and maintain the system for these employees was established by negotiation with the Benzie County Road Commission's competitive bargaining units and requires a contribution based on gross wages by County Road Commission only. The Commission contributes 24.41% of wages for general employees, 20% for administrative officials, and 18.22% for Commissioners.

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)**

**Annual Pension Costs** – For year ended 2008, the Benzie County Road Commission's pension cost of \$237,841 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2006, using the age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial Value of Assets	\$ 2,830,180	\$ 2,995,004	\$ 3,109,944
Actuarial Accrued Liability	5,809,295	6,190,918	6,374,895
Unfunded AAL	2,979,115	3,195,914	3,264,951
Funded Ratio	49%	48%	49%
Covered Payroll	1,133,807	1,107,068	1,052,829
UAAL as a Percentage of Covered Payroll	263%	289%	310%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 220,216	100%	0
2006	217,681	100%	0
2007	234,987	100%	0

**NOTE 7 - STATE EQUIPMENT PURCHASE ADVANCE**

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

**NOTE 8 - LONG-TERM DEBT**

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment payable to Bank, 4.59% interest rate, payable in monthly installments of \$13,819, secured by equipment.	\$ 201,066	\$ -	\$ 201,066	\$ -	\$ -
Installment payable to Bank, 4.80% interest rate, payable in monthly installments of \$4,406, secured by equipment.	55,679	-	55,679	-	-
Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$6,475, secured by equipment.	22,714	-	22,714	-	-
Compensated Absences	<u>76,503</u>	<u>-</u>	<u>2,907</u>	<u>73,596</u>	
<b>TOTAL</b>	<u><u>\$ 355,962</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 282,366</u></u>	<u><u>\$ 73,596</u></u>	

**NOTE 9 - POST EMPLOYMENT BENEFITS**

The employer provides health insurance retirees who retire under the Employer's MERS plan. Coverage is for a period of five years or until the retiree reaches age 65, whichever event occurs first. The retiree is then responsible for the cost of health insurance for his/her spouse and/or children. After the retiree's eligibility for Employer-paid benefits expires, he/she shall be responsible for the total cost of health insurance.

For any employee who hired prior to June 30, 1993, he/she will, after reaching age 65, receive a 50% contribution for the Commission toward the cost of health insurance, supplemental to Medicare for the retiree and his/her spouse and/or dependent children.

*Plan Description.* The Commission administers a single-employer defined benefit healthcare plan. The Plan provides healthcare insurance for eligible employees and their spouses through the Commission's group insurance plan which covers both active and retired members. Benefit provisions are established and may be amended by the Board of County Road Commissioners. The Plan provides for the Commission to contribute various percentages of the cost of health insurance premiums for retirees and their spouses. The Plan does issue a publicly available report.

**NOTE 9 - POST EMPLOYMENT BENEFITS (Continued)**

*Annual OPEB Cost and Net OPEB Obligations.* The Commission's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Commission's net OPEB obligation to the Plan for Plan year ended September 30, 2008.

Annual required contribution	\$ 184,278
Interest on net OPEB obligation	<u>-</u>
Annual OPEB cost	184,278
Contributions made	<u>(184,278)</u>
Increase in net OPEB obligation	-
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u><u>\$ -</u></u>

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending September 30, 2008 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
09/30/08	184,278	100.0%	-

As of September 30, 2008, the actuarial accrued liability for benefits was \$2,557,488, 96% of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,131,554, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 226%.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information indicating whether the actuarial value of plan assets is increasing over time relative to the actuarial accrued liabilities for benefits.

**NOTE 9 - POST EMPLOYMENT BENEFITS (Continued)**

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

Assumptions About Employees and Members: Based on the historical average retirement age of the covered group, active plan members were assumed to retire at various ages between 50 and 60 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published in the 1994 Group Annuity Mortality Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using specific age-based turnover data.

Assumptions About Healthcare Costs: The 2006 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 10%, with reduction to the ultimate rate of 4.5% after ten years.

Other Assumptions and Methods: The inflation rate was assumed to be 4.5%. Based on the historical and expected returns of the Commission's investments, the investment rate of return was assumed to be 6%. The value of Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Funding Progress for the Retiree Health Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a) / c)
2006	\$ 92,798	\$2,557,488	\$2,557,488	4%	Not Available	-

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2008.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

**NOTE 11 - SUBSEQUENT EVENTS**

In February 2009, the Commission executed a financing agreement for \$203,817 for the purchase of two trucks. Terms of the agreement are 4% interest payable in monthly installments of \$6,022 including principal for 36 months.

**NOTE 12 - ENVIRONMENTAL REMEDIATION**

The Commission incurs ongoing costs annually of approximately \$12,000 for monitoring and maintenance of a contaminated site located at its main garage. Future estimated environmental remediation costs are not determinable at this time.

## **Required Supplementary Information**

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**Benzie County Road Commission****Required Supplementary Information  
Statement of Revenues  
Budget and Actual  
For the Year Ended September 30, 2008**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits				
Permits	\$ 13,000	\$ 57,300	\$ 57,180	\$ (120)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,459,200	1,501,700	1,501,697	(3)
Local Road	825,600	840,000	839,200	(800)
Snow Removal	150,000	150,900	150,876	(24)
Economic Development Fund				
Forest Road	43,000	43,217	43,217	-
Contributions from Local Units				
Townships	34,300	59,262	58,876	(386)
Charges for Services				
State Trunkline	650,000	944,500	944,424	(76)
Salvage Sales	2,000	23,000	22,798	(202)
Other	-	-	347	347
Interest and Rents	21,000	52,600	52,784	184
Other Revenue				
Private Sources	6,500	257,700	256,505	(1,195)
Gain on Equipment Disposal	-	50,657	50,516	(141)
Total Revenue	<u>\$ 3,214,600</u>	<u>\$ 3,990,836</u>	<u>\$ 3,988,420</u>	<u>\$ (2,416)</u>

**Benzie County Road Commission****Required Supplementary Information  
Statement of Expenditures  
Budget and Actual  
For the Year Ended September 30, 2008**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Preservation	\$ 47,320	515,850	\$ 514,081	\$ 1,769
Maintenance	695,000	850,000	846,708	3,292
Local Road				
Preservation	7,000	432,600	431,196	1,404
Maintenance	979,100	1,041,250	1,037,743	3,507
State Trunkline				
Maintenance	705,000	843,000	842,914	86
Equipment Expense – Net	83,300	62,400	64,633	(2,233 )
Administrative Expense – Net	1,013,300	229,925	228,980	945
Capital Outlay – Net	(437,400 )	(196,890 )	(200,911 )	4,021
Distributive	171,500	-	-	-
Debt Service				
Principal	211,304	282,000	279,459	2,541
Interest	<u>5,052</u>	<u>3,900</u>	<u>6,235</u>	<u>(2,335 )</u>
Total Expenditures	3,480,476	4,064,035	<u>\$ 4,051,038</u>	<u>\$ 12,997</u>
Fund Balance – October 1, 2007	<u>1,543,370</u>	<u>1,543,370</u>		
Total Budget	<u>\$ 5,023,846</u>	<u>\$ 5,607,405</u>		

## **Other Supplementary Information**

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**Benzie County Road Commission****Analysis of Changes in Fund Balances  
For the Year Ended September 30, 2008**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 1,663,998	\$ 1,210,238	\$ 1,114,184	\$ 3,988,420
Total Expenditures	<u>1,489,518</u>	<u>1,613,891</u>	<u>947,629</u>	<u>4,051,038</u>
Excess of Revenues Over (Under) Expenditures	174,480	(403,653)	166,555	(62,618)
Optional Transfers In (Out)	<u>(403,653)</u>	<u>403,653</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(229,173)	-	166,555	(62,618)
Fund Balance – October 1, 2007	<u>480,350</u>	<u>-</u>	<u>1,063,020</u>	<u>1,543,370</u>
Fund Balance – September 30, 2008	<u>\$ 251,177</u>	<u>\$ -</u>	<u>\$ 1,229,575</u>	<u>\$ 1,480,752</u>

**Benzie County Road Commission****Analysis of Revenues  
For the Year Ended September 30, 2008**

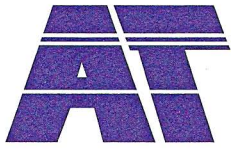
	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits	\$ -	\$ -	\$ 57,180	\$ 57,180
State Sources				
Michigan Transportation Fund				
Engineering	6,399	3,601	-	10,000
Primary Road	1,501,697	-	-	1,501,697
Local Road	-	839,200	-	839,200
Snow Removal	96,546	54,330	-	150,876
Economic Development Fund				
Forest Road	43,217	-	-	43,217
Contributions from Local Units				
Townships	-	58,876	-	58,876
Charges for Services				
State Trunkline - Maintenance	-	-	944,424	944,424
Salvage Sales	-	-	22,798	22,798
Other	-	-	347	347
Interest and Rents	16,139	-	21,449	37,588
Other Revenue				
Private Sources	-	254,231	2,274	256,505
Other	-	-	15,196	15,196
Gain on Disposals	<u>-</u>	<u>-</u>	<u>50,516</u>	<u>50,516</u>
Total Revenue	<u>\$ 1,663,998</u>	<u>\$ 1,210,238</u>	<u>\$ 1,114,184</u>	<u>\$ 3,988,420</u>

**Benzie County Road Commission****Analysis of Expenditures  
For the Year Ended September 30, 2008**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation	\$ 514,081	\$ -	\$ -	\$ 514,081
Maintenance	846,708	-	-	846,708
Local Road				
Preservation	-	431,196	-	431,196
Maintenance	-	1,037,743	-	1,037,743
State Trunkline Maintenance	-	-	842,914	842,914
Equipment Expense – Net	18,615	26,086	19,932	64,633
Administrative Expense – Net	110,114	118,866	-	228,980
Capital Outlay – Net	-	-	(200,911)	(200,911)
Debt Service				
Debt Principal Payments	-	-	279,459	279,459
Interest Expense	-	-	6,235	6,235
Total Expenditures	<u>\$ 1,489,518</u>	<u>\$ 1,613,891</u>	<u>\$ 947,629</u>	<u>\$ 4,051,038</u>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners  
Benzie County Road Commission  
Honor, Michigan 49640

We have audited the financial statements of the governmental activities and major fund, of the Benzie County Road Commission (a component unit of the County of Benzie, Michigan) as of and for the year ended September 30, 2008, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 26, 2009. The report on the governmental activities and major fund was qualified because of a lack of physical observation of inventory quantities. Except as discussed in the previous sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Benzie County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in 08-1 and 08-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Benzie County Road Commission in a separate letter dated February 26, 2009

Benzie County Road Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 26, 2009

SIGNIFICANT DEFICIENCIES

**Inability of Management to Prepare the Financial Statements in Accordance  
with Generally Accepted Accounting Principles**

***Finding 08-1***

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112.

Criteria: Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements necessary to monitor and report annual financial activity in accordance with GASB Statement No. 34 without auditor intervention.

Condition: Personnel responsible for financial reporting are not monitoring and reporting annual financial activity in accordance with GASB Statement No. 34 without auditor intervention.

Effect: The effect of this condition places a reliance on the independent auditor to part of the Commission's internal controls over financial reporting.

Cause: Change in application of auditing standards.

Recommendation: The Commission should review and implement the necessary education and procedural activities to monitor and report annual financial activity in accordance with generally accepted accounting principles for Governmental Units in accordance with GASB Statement No. 34.

Responses: The Commission's finance director has implemented procedures to comply with the standard.

- Contact Person(s) Responsible for Correction:  
Robert Weaver, Manager

NONCOMPLIANCE WITH STATE STATUTES

**Expenditures in Excess of Appropriations—Budgetary Funds**

**Finding 08-2**

Condition: Our examination of procedures used by the Commission to adopt and maintain operating budgets for the Commission's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's 2008 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2008 expenditures exceeded the board's approved budget allocations for some general fund activities.

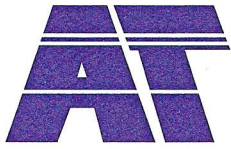
During the fiscal year ended September 30, 2008, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 27 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the Commission's chief administrative officer and personnel responsible for administering the activities of the various funds of the Commission, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Responses: Amounts will be maintained in the future.

- Contact Person(s) Responsible for Correction:  
Robert Weaver, Manager



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
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**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Members of the Board of County Road Commissioners  
Benzie County Road Commission  
11318 Main Street  
Honor, Michigan 49640

We have audited the financial statements of the Benzie County Road Commission as of and for the year ended September 30, 2008, and have issued our reports thereon dated February 26, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated January 21, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Benzie County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Benzie County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our memorandum about planning matters on February 19, 2009.

### **Significant Audit Findings**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Benzie County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2008. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. A copy of any adjustments are available from management, if any.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated February 26, 2009.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Comments and Recommendations**

#### **Purchase Orders (Prior Year)**

All purchase orders should be signed and provided to the Clerk prior to ordering according to good procedure. This procedure would notify the clerk of capital outlay expenditures which must be capitalized in the records.

Status: Corrected.

#### **Reoccurring Billings (Prior Year)**

Although management reviews significant or stock purchases and indicates approval by initial, reoccurring billings for utilities, small supplies, etc. do not indicate approval by initial. To strengthen controls over disbursements and indicate management authorization of all disbursements, initials should be written on all invoices to avoid duplicate payments and indicate the authorizer of payment.

Status: Corrected.

#### **Check Review (Prior Year)**

Issued checks require only one signature by board procedure. Additionally, the check signing process allows, at times, individuals to sign checks made to themselves as the payee. To avoid potential conflicts and strengthen the review process of cancelled checks, checks should not be signed by the payee and two signatures should be indicated on all checks.

Status: Corrected.

### **Auto Use (Prior Year)**

Personal use of business automobiles is considered compensation to employees according to Internal Service Regulations. An auto lease value amount should be calculated in accordance with IRC provisions or mileage paid and included as compensation on the employee's Form W-2 at year end for any usage deemed personal.

Status: Corrected.

### **Fraud Policy (Prior Year)**

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Commission does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Commission adopt a fraud policy in compliance with SAS No. 99.

Status: Corrected.

### **EFT Policy**

The Commission has utilized electronic funds transfers for payment of payroll related items. A policy should be adopted authorizing these types of transactions, controls, and services covered. The Board did adopt a resolution in accordance with State law.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Benzie County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should no be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 26, 2009